Supreme Court, U.S.
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Nos. 85-1219, *et al.*

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

TRANSWESTERN PIPELINE COMPANY, *et al.*

Petitioner,

v.

FEDERAL ENERGY REGULATORY COMMISSION,

Respondent.

On Petitions For A Writ Of Certiorari To The United States Court Of Appeals For The District Of Columbia Circuit

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BRIEF OF RESPONDENTS TENNESSEE GAS PIPELINE COMPANY AND MIDWESTERN GAS TRANSMISSION COMPANY IN SUPPORT OF PETITIONS FOR WRIT OF CERTIORARI

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February 10, 1986

PRESS OF BYRON S. ADAMS, WASHINGTON, D.C. (202) 347-8203

List Of Affiliates Of Tennessee Gas Pipeline Company And Midwestern Gas Transmission Company Who Are Not *Wholly Owned By Tenneco Inc. Pursuant To Rule 28.1*

Adela Investment Company S.A.
Akulu Marchon (PTY) Ltd.
Akulu Chemicals (PTY) Ltd.
Albright, Morarji and Pandit Limited
Albright & Wilson (Australia) Ltd.
Albright & Wilson Match Phosphorous Co. Ltd.
Arndale Fuels Ltd.
Bracey Petroleum Products Ltd.
Butler Oil Products Ltd.
Case Poclain GmbH & Co.
Collins Pipeline Company
Depositas Del Norte, S.A.
FC Marine Inc.
Gardinol Products (PTY), Ltd.
HT Gathering Company
Intertractor Viehmann GmbH & Co.
J.I. Case do Brasil & Cia.
Kern Island Water Company
Kern River Canal and Irrigating Company
Kern River Gas Transmission Company
Losenhausen Maschinenbau AG & Co.
Losenhausen Maschinenbau AG
Marchon-Paragon Holdings (PTY) Limited
Marchon-Paragon Sulphonation (Cape) (PTY) Ltd.
Marchon-Paragon Sulphonation (PTY) Ltd.
Mistal Inc.
Monroe Auto Pecas S.A.
National Brands (PTY), Ltd.

Omni-Pac GmbH
P.P.M. Guindastes Hidraulicos S.A.
Pholyphosphates Inc.
Poclain S.A.
S.A. Paper Chemicals (Proprietary), Limited
Sara Gretes Cafetria AB
Skogstre A/S
Stoco Mutual Water and Sewer Company
T & M Terminal Company
Tees Storage Company Limited
Tenneco Insurance Ventures Inc.
Tenneco Oil Company of Nigeria Unlimited
Tenneco Oil of Nigeria Unlimited
Tenngasco Gas Gathering Company
Tess Storage Company Limited
TENN-USS Chemicals Finance Corporation
Tractortechnic Canada, Ltd.
Universal Chemical Contractors (PTY)
Vibromax France SARL
Vibromax France SCI
W.R. John & Company (Rumney) Ltd.

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Tennessee Gas Pipeline Company (Tennessee) and Midwestern Gas Transmission Company (Midwestern)[1]

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[1]Tennessee and Midwestern were parties to the proceeding below. They are natural gas pipeline companies engaged primarily in the business of purchasing, transporting and selling

support the petitions for a writ of certiorari to the United States Court of Appeals for the District of Columbia Circuit filed by Transwestern Pipeline Company (No. 85-1219), ANR Pipeline Company (No. 85-1236), Texas Eastern Transmission Corporation (No. 85-1237), Trunkline Gas Company and Panhandle Eastern Pipe Line Company (No. 85-1250), and Arkla Energy Resources (No. 85-1282). These petitions challenged a decision of the United States Court of Appeals for the District of Columbia Circuit (App. A-1)[2] upholding a series of rulemaking orders of the Federal Energy Regulatory Commission (Commission or FERC) that declared unlawful longstanding and previously authorized minimum contractual purchase

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natural gas in interstate commerce under authority granted by and subject to the jurisdiction of the Commission under the Natural Gas Act. Tennessee's main transmission system extends northeastward from its supply sources in Texas, Louisiana and the Gulf of Mexico into sixteen states terminating in New England. Its sales are made to gas distribution companies and other pipelines which resell the gas being ultimately consumed in twenty-two states, primarily in the Middle Atlantic, Midwest and New England regions. At the end of 1983, Tennessee had over three billion dollars of utility plant in service, including almost fourteen thousand total miles of pipeline. Midwestern has two separate pipeline systems. Midwestern's Southern System extends from Portland, Tennessee, where it purchases its gas supply from its affiliate, Tennessee, to Joliet, Illinois. It sells primarily to gas distributors who resell the gas in the greater Chicago-Gary area. Its Northern System buys natural gas from a Canadian supplier, and its principal customer is ANR Pipeline Company, which primarily serves the states of Wisconsin and Michigan. At the end of 1983, Midwestern had about one-hundred sixty million dollars of utility plant in service, including over nine hundred miles of pipeline.

[2]The appendix references are to the appendix filed with this Court by Transwestern.

commitments by pipeline customers that enabled the recovery of variable costs through minimum commodity bills.[3] In the interests of brevity, Tennessee and Midwestern hereby adopt the statements of the case, statutes involved, jurisdiction and opinions below submitted in the petition of Trunkline Gas Company and Panhandle Eastern Pipe Line Company.[4]

REASONS FOR GRANTING THE WRIT

This case involves fundamental and important questions concerning the Commission's authority to release partial requirements customers of pipelines from previously authorized and longstanding minimum purchase commitments while at the same time holding pipelines to their contractual agreement to provide certain maximum volumes to those customers upon demand. The case is not only vitally important to pipelines because they have made multi-million dollar investments in facilities and have entered into minimum gas purchase obligations with producers and suppliers in reliance on the contract provisions that have been set aside, but also to the pipelines' entire requirements customers who will have to bear a much greater portion of cost of service of the pipeline.

I.

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[3]These orders were issued in Commission Docket No. RM83-71 and are identified as Order No. 380 (App. A-71), 380-A (App. A-129), 380-B (App. A-226), 380-C (App. A-231), and 380-D (App. A-271).

[4]The issues addressed here relate to questions presented for review by Transwestern Pipeline Company and Texas Eastern Transmission Corporation.

FERC HAS DESTROYED THE BASIC CONTRACTUAL UNDERPINNINGS OF THE NATURAL GAS INDUSTRY WITHOUT SATISFYING THE REQUIREMENTS FOR SUCH CONTRACTUAL ABROGATION SET FORTH IN THIS COURT'S DECISIONS

Over the last thirty years in cases under the Natural Gas Act (15 U.S.C. § 717, *et seq.*), this Court has repeatedly recognized the importance of private contracts between interstate pipelines and their customers and has held that such contracts may be abrogated "only in circumstances of unequivocal public necessity." *In Re Permian Basin Area Rate Cases*, 390 U.S. 747, 822 (1968), *citing United Gas Pipe Line Co.* v. *Mobile Gas Service Corp.*, 350 U.S. 332 (1956); *accord Arkansas Louisiana Gas Co.* v. *Hall*, 453 U.S. 571, 582 (1981). The basis for this heavy burden was that "preserving the integrity of contracts . . . permits the stability of supply arrangements which all agree is essential to the health of the natural gas industry." *United Gas Pipe Line Co.* v. *Mobile Gas Service Corp.*, 350 U.S. at 344; *see also U.S.* v. *El Paso Natural Gas Co.*, 376 U.S. 651, 660 (1964) ("pipelines are very expensive; and to be justified they need long-term contracts for sale of gas that will travel them"); *Tampa Electric Co.* v. *Nashville Coal Co.*, 365 U.S. 320, 334 (1962) ("in the case of public utilities the assurance of a steady and ample supply of fuel is necessary in the public interest. . . . The compelling validity of such considerations has been recognized fully in the natural gas public utility field.").

The court below did not determine whether the Commission's action abrogating these private con-

tracts met this Court's standard of "unequivocal public necessity." Thus, it requires review by this Court to determine whether contract provisions such as these can be abrogated under the Commission's rule without meeting this standard.

Review is further warranted because the Commission abrogated these contracts, notwithstanding the reliance placed on such contracts by interstate pipelines, such as Tennessee and Midwestern. It cannot be disputed that minimum commodity bills were essential parts of gas supply contracts entered into between interstate pipelines and their customers. In the case of Tennessee and Midwestern, the bargain struck with their partial requirements customers was that Tennessee and Midwestern would provide those customers with a specified firm volume of gas upon demand and the customers' payments would be subject to a minimum commodity bill based on $66^{2}/_{3}\%$ of the monthly volume they were entitled to demand. In this way, the partial requirements customer, which is a reseller of gas and closer to the ultimate market than Tennessee and Midwestern, shared in the risk of market fluctuations.

Based on these agreements, Tennessee and Midwestern undertook the multi-million dollar investments necessary to meet those customers' requirements. Tennessee entered into supply contracts with producers which also contained minimum take-or-pay obligations, and Midwestern undertook minimum bill obligations to its suppliers. These bargained-for minimum commodity bill provisions, which have been in Tennessee's and Midwestern's contracts and tariffs from the inception of service to such customers, were found to be required by the public con-

venience and necessity when the service to the customer was first certificated and have time and time again in numerous rate proceedings been a part of the tariff provisions that were approved as just and reasonable under the standards of Sections 4 and 5 of the Natural Gas Act. The Commission's elimination of the minimum commodity bills penalizes pipelines, such as Tennessee and Midwestern, for that reliance and effects an after-the-fact change in the governing rules.

Furthermore, in support of this abrogation of these longstanding contracts, the Commission's basic thesis accepted by the court below involved generalized statements of the benefits of competition.[5] The Commission made no attempt to show "unequivocal public necessity" as required by this Court (App. A-81, A-100), nor did the court below require such a finding (App. A-18).

The D.C. Circuit's acceptance of the Commission's general assertions of the benefits of competition is squarely contrary to *FCC* v. *RCA Communications*, 346 U.S. 86, 94 (1953) where this Court rejected a like order based on the mere recitation, without thorough study, that competition may have beneficial effects.

Therefore, the petitions should be granted because the court below ignored longstanding decisions of this Court which require a finding of "unequivocal public

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[5]The Commission performed no studies to support its findings. The Commission relied for the most part on general comments submitted by partial requirements customers of interstate pipelines who supported the Commission's proposal (*see* e.g. App. A-88 n. 28).

necessity" before the private contracts at issue here can be abrogated.

II.

THE COURT BELOW ERRED IN AFFIRMING A RULE WHICH RESTRUCTURED THE NATURAL GAS INDUSTRY BUT FAILED TO RESOLVE THE LINKED IMPACT OF ITS ACTIONS ON TAKE-OR-PAY

As the court below recognized, the Commission cannot issue a rule such as this without also resolving inextricably linked issues (App. A-38). Where the court erred, though, was in not recognizing that take-or-pay provisions between producers and interstate pipelines are inextricably linked with minimum commodity bills that exist between interstate pipelines and their customers.

It is clear that, in reliance on their sales contracts which contained minimum commodity bills recovering variable costs, pipelines in turn contracted for gas supplies from producers. These supply contracts typically include take-or-pay provisions which are similar in nature to the minimum commodity bills that were the subject of the Commission's rule. While it could not be disputed below that the same policy considerations could support elimination of these counterpart take-or-pay and minimum bill provisions alike, the court, as did the agency below, refused to require concurrent resolution of these inextricably related matters (App. A. 39-40). In thus failing to come to grips with the pipeline's take-or-pay obligations at the supply end of the pipeline system while eliminating the counterpart purchase obligations owing to

the pipeline at the opposite end of the pipeline system, the pipeline has been arbitrarily stripped of its right to contract with its purchasers in a way that corresponds with its purchase obligations to its suppliers.

If a more competitive marketplace is the *raison d'etre* below, then it must be recognized that in a truly competitive marketplace a customer could not expect its pipeline supplier to undertake massive gas supply commitments when, on the other hand, it could be relieved of its corresponding purchase obligations to the pipeline. Ironically, only regulation would have it so. But regulation must be a two way street, and the pipeline must likewise be relieved of its corresponding purchase obligations.

This lack of evenhanded treatment of these mutual, balanced seller-purchaser relationships which coexist at each end of the pipeline results in additional costs being borne by the pipeline and by its full requirements customers that have no alternative sources of supply. Thus, the take-or-pay and minimum commodity bill issues are inextricably linked as demonstrated by the substantial take-or-pay cost consequences that result if variable costs are not recovered in minimum commodity bills.

Review by this Court is therefore warranted because of the failure by the court below to recognize the inextricable link between take-or-pay and the recovery of variable costs in minimum commodity bills and to therefore, require the Commission to resolve the take-or-pay issue concurrently with the minimum bill issue.

CONCLUSION

For the reasons set forth above, this Court should issue a writ of certiorari to review the judgment and opinion of the United States Court of Appeals for the District of Columbia Circuit.

Respectfully submitted,

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